

FAR EASTERN ECONOMIC REVIEW

FINANCE, TRADE & INDUSTRY

Vol. II.

Hongkong, January 8th, 1947.

No. 2.

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The Effect of Japanese Occupation on Debtor-Creditor Relationships

In the issue of the *Far Eastern Economic Review* for November 6th, 1946 a report was published of two decisions of the Manila Court of First Instance which are of the greatest importance to all the liberated territories of the Far East. It was held in both that payments made to the bank liquidators appointed by the Japanese in respect of pre-war debts were null and void on the ground that they had not been made to the rightful creditor or to anyone authorised by him to receive payment on his behalf. These judgments were not based on the fact that payments had in both cases been made in Japanese occupation currency but on the elementary principle of law which has been enshrined in the common law of England and America in the language of the United States Supreme Court:

"Debts can only be satisfied when paid to the creditors to whom they are due or to others by direction of lawful authority. Any sum which an unlawful combination may have compelled the debtors to pay to its agents on account of debts to loyal citizens cannot have any effect upon their obligations: they remain subsidiary and unimpaired."

Last month the Manila Court delivered two additional judgments of great importance, one ruling that payment to a Japanese liquidator of money in respect of a pre-war debt was null and void, and the other on the question of a debt incurred in Japanese pesos during the occupation and the valuation in Philippine currency to be given to the balance now remaining due.

I.—In the first case Judge Eulalio Garcia, of the court of first instance of Rizal, ruled that payments made in Japanese war notes on pre-war obligations to the Japanese military administration are null and void. The ruling was made in a suit brought by the law firm of Gibbs, Gibbs and Chuidian, on behalf of H. D. Kneeder, liquidator of Kneeder Realty Company, against Simon Paterno for the recovery of P81,000.

On the strength of this ruling, Judge Garcia directed Paterno to pay Kneeder the sum of P81,000 representing the unpaid balance of the value of a piece of land situated in Pasay, Rizal, which was purchased by Paterno from Kneeder Realty Company before the war. Paterno was ordered to deposit the amount with the court after the debt moratorium as declared in Executive order No. 32 has been lifted.

The facts of the case show that Paterno purchased the property on October 14, 1941 for the amount of P111,000. Paterno made a down payment of P30,000 leaving a balance of P81,000 which he promised to pay within one year in monthly installments of P7,000 for the first 11 months, and P4,000 for the last month with interest at nine per cent. To guarantee payment, Paterno executed a mortgage on the property in favor of the company.

When the Japanese took over, they confiscated all the properties and assets of the Americans and other enemy nationals. On February 1944, the Japanese military administration ordered Paterno to pay the unpaid balance of the value of the property, which he did. Following liberation, Kneeder demanded payment from Paterno who allegedly refused to pay on the ground that he has already paid the amount to the Japanese and consequently his obligation has been extinguished.

Judge Garcia held that the confiscation by the Japanese of the property which at the time was mortgaged to Kneeder Realty Company and its subsequent disposal to Paterno following the payment of the unpaid balance in Japanese war notes were in violation of the laws of the Philippines and international law. The judge explained that under the Hague Convention, of which the United States and the Japanese Empire were signatories, private property cannot be confiscated. He added under article 53 of Title III of the convention, an army of occupation can only take possession of cash, funds and realizable securities which are strictly the property of the state.

Judge Garcia further stated that the Hague Convention forms part of the laws of the country by virtue of their incorporation under the provisions of the Philippine Constitution. He concluded that the payment made by Paterno to the Japanese military administration infringes international law and the local laws as it was not made to the creditor nor to any person authorized by it.

II.—In the second case the facts showed that on May 4th, 1944 Soledad Tinio obtained a loan from La Provisora Filipina of Pesos 40,000 in Japanese war notes. The debtor failed to pay her debt. The Court held that a debt incurred in Japanese war notes during the occupation was

valid and collectible, but that the original indebtedness of P40,000 (Japanese) should be reduced to P2,000 Philippine currency which was estimated to be the equivalent of the Japanese Peso or fiat money at the time the obligation was incurred in May 1944.

In determining the Philippine Peso equivalent of the Japanese war notes the Court used the so-called "Ballantyne Scale". According to this scale it was estimated that owing to the depreciation of the fiat money the purchasing value of the Japanese Peso was in May 1944 not more than that of one Philippine Peso.

The two cases are typical of the two classes of debtor-creditor relationships which have arisen in all liberated territories and represent the distinction between pre-war obligations which should be paid in full to the rightful creditor according to the currency in which they were made and debts incurred during the occupation in respect of which a value must be given to any balance remaining unpaid.

The Budget of China

In our Jan. 1 issue (page 3) China's expenditures for the 1947 fiscal year were given at CN\$9,300 billion. Revenue estimates were not made public by official sources, however, Chinese financial observers compiled figures which ranged between 5 to 7½ trillion. Sources close to the Ministry of Finance estimated that revenue for 1947 could not be expected to exceed 5 trillion. The following estimate for China's revenues, amounting to 7,433 trillion, has been compiled by "Shang Pao", Shanghai:

Land Tax	CN\$ 624
Income Tax	311
Excess Profit Tax	200
Inheritance Tax	120
Stamp Tax	300
Business Tax	80
Special Business Tax	22
Customs Revenue	600.4
Commodity Tax	1,217.2
Mining Tax	30
Salt Tax	535
Interest on Properties	35.6
Sales of Property	500
Sales of enemy goods	800
Surplus goods	1,120
Surplus crops	40
Exchange Profits	10
Profits of Govt. concerns ...	788.2
Others	100

A usually well informed Shanghai paper, "Lien Ho Wan Pao" (democratic), believed that Govt. expenditures with 9.3 trillion were a considerable understatement; the financial editor estimated 1947 expenditures of 15 trillion, and a probable budgetary deficit of around 10 trillion.

The Budget for 1946 was fixed at 2.3 trillion; disbursements, however, are stated to have passed in November the 5 trillion mark.

Revenue from Taxes

The Commodity Tax, which is shown to be the most productive tax in China, took the place of the Consolidated Tax on Commodities in August 1946. It is levied on local or imported Rolled Tobacco, Cured Leaf Tobacco, Foreign Wine and Beer, Matches, Sugar, Cotton Yarn, Flour, Cement, Tea, Hides and Wool, Tin-foil Paper, Beverages and Cosmetics at rates varying from one hundred per cent for Wines and Rolled Tobacco to two-and-half per cent for Flour. It is rumoured that in 1947 all these rates will be doubled.

It is not clear what are the "Surplus Goods" the sale of which is estimated to produce so large a sum as \$1,120 billion, but presumably they are surplus war materials obtained from the Americans.

It is difficult to form an intelligent appreciation of the Chinese financial position without having some knowledge of the total fapi note issue, but estimates of different financial experts vary so widely that no reliability can be placed on them and no satisfactory conclusions can be drawn.

Military Expenditures

The Shanghai and Nanking press is critical of the budget figures as far as published by official and other sources. The heavy extent of expenditures for Chinese armed forces is usually assailed as squandering the nation's meagre revenue. There are at present almost 5 million men under arms in China under control of the Nanking Central Government (another approx. 2 million regular troops in the Yanan controlled areas of China are being taken care of by the Yanan budget which has been estimated at about CN\$1,000 billion). Demands made by the People's Political Council, Nanking, requested Central Govt. to reduce its armies to a maximum strength of 3 million men during 1947. Other requests made by the P.P.C. included: abolition of a number of Army organisations and bureaus, cut in the personnel of the Air Force (which is overstaffed by many thousand young men without any understanding of air force requirements), improved treatment of the rank & file in order to enforce discipline.

American Opinions

The American-owned "China Weekly Review" editorial on Jan. 4 stated with regard to estimates of Govt. expenditures that the Government expects to collect roughly CNC\$7 trillion in revenue and to cover the deficit by floating public loans. In addition to the loans, which it is understood will be parceled out to provinces, municipalities and hsien with guild leaders, village head men, instructed to see to it that their immediate subordinates subscribe, CNC\$3.6 trillion will be obtained from taxation CNC\$2.2 trillion is estimated as the income to be received from the sale of materials and property, including alien property and U.S. surplus materials. State enterprises are expected to produce CNC\$900 billion, with the China Textile Industries and the China Merchants Steam Navigation Company making the largest contributions.

The American Position in the Far East

Problems Facing U.S. in Dealing with U.S.S.R., China and Japan

Two Essays

(By An American Liberal)

Treaties of peace for the Far East still wait on the writing of treaties for Europe. But the pattern emerging at Paris is highly significant for all Far Eastern peoples. Several countries, Australia and China in particular, were attempting to stake out claims and establish precedents at Paris with a view to coming discussions about Japan.

In the Far East U.S. is more directly involved and heavily committed than in Eastern Europe. While pressing for multilateral settlement of European questions, U.S. is attempting, in the Far East, unilateral disposition of the most important issues.

The case for approaching the problems of the Far East on a multilateral basis is strong. The devastation caused by Japanese occupation and defeat, the collapse of the intricate pre-war political and economic systems, the responsibilities of administering conquered peoples, the adjustment to a new balance of power, the very aspirations of millions of Asiatics—all these factors make it impossible to settle anything on a parochial basis.

"While the faults of a such a budget outline are obvious, some encouragement is lent by the mere fact that military expenditures, while still the most prominent, have dropped percentage-wise from their imposing position in last year's budget. Whether or not military expenditures can be kept within the CNC\$3,810 billion limit is another matter. China's military men are not known for their respect for budgets or other forms of civilian control.

"Further, when campaigns are as uncertain as they are in China to-day with the military picture shifting from month to month, it is indeed difficult to budget a war. Reverses and losses of territory may necessitate increased military outlay and also cause a reduction in revenue because of taxable territory lost. Conversely, capture of additional territory upon which taxes can be levied may increase income. On the other hand, liberation of ravaged areas such as Kalgan may impose additional and unforeseen burdens in the way of absolutely essential relief and rehabilitation.

"Perhaps the greatest obstacle in drawing up a budget is the certainty that the currency will by the end of 1947 be greatly more inflated than at present. Since the rate of inflation cannot be predetermined, it is completely impossible to allow for it. The CNC\$400,000,000,000 to be set aside as a reserve will undoubtedly look extremely small 12 months from now.

"Another factor—one that while it will not aid the Government in staying within its budget in terms of Chinese dollars will help it avoid bankruptcy—is the fact that a large part of the CNC\$3,600,000,000,000 anticipated taxation revenue will be in the form of tax in kind. Thus, no matter what happens to the currency, the rice in the godowns will be just as good 12 months hence as it is now and will have approximately the same "purchasing power" it has to-day.

"While the present budget is on the whole unsatisfactory in that it has to be based in terms of unstable Chinese dollars, in that the published version is too general, leaving out a lot of vital, specific information, and in that the figures as broken down will not add up to the given total, it can easily be seen that such a task is well nigh impossible to-day."

Nationalism and food, civil war and trade, power and currency, all are inter-related. In every area of the Far East, economic enterprise, cultural and educational relations, and even private travel, come under government regulation of some sort and are related to power politics.

Complicated China Affairs

The projection of domestic difficulties onto the international scene, and the impingement of international complications on domestic affairs, are especially apparent in China. It is the political weakness of an ally, rather than the dismemberment of an enemy, which inevitably pulls the powers together whether they wish it or not.

The 400 millions in China have lived in a goldfish bowl ever since the beginning of the last century. It has always been an American policy to keep the bowl itself intact, regardless of what happened to the fish. After the war the United States took the place of the pre-war collection of powers interested in China. The legal limitations on Chinese sovereignty were swept away and the only problem that seemingly remained to endanger the bowl was the internal struggle between Nationalists and Communists.

The President of U.S. went so far in his December 15, 1945, statement as to justify practical American concern with the internal struggle in China. At that time he said that this issue was related to world peace and therefore to the United States, which was presumably acting on behalf of the United Nations. The catch here is that other powers have the same "right" to intervene in the same way and for the same purpose.

China as a test case

The conflict in China is the place where many other issues meet, the focal point for questions of international relations, of race, of social structure, of economic development and political climate. Everything conspires to put the issue in dramatic terms and, by overemphasis, to move it out of focus.

For one thing, America has more information about the Chinese conflict than about the bloody and significant struggles in Indonesia and Indo-China. Prestige is also highly involved. Furthermore, the Nationalist-Communist conflict is thought of mainly in terms of the power relations between the United States and the Soviet Union—which are important but not the whole story, because political organization is bound up with broad economic issues in the Far East.

The greatest risk, it is argued, of inviting the Russians to help solve the problems of Asia before the peace conference gets around to that part of the world arises from the revolutionary situation in Asia. Whatever political expression it takes, from Indian nationalism to Korean frustration, it is bound up with a changed and desperate economic situation.

U.S. Army in Business

The relation between politics and economics comes out clearly in Japan, where occupation forces of U.S. have had to face the food problem realistically. It is estimated that Japan has to earn 400 million dollars in foreign credits to pay for the food and other essentials not produced at home.

Japanese food shortages are real, even if Japanese propaganda has grossly exaggerated their extent. That is why SCAP permitted the revival of a certain amount of foreign trade. The export of raw silk to the United States brings in 30 per cent of the dollar value required. For the rest, the United States Army is now acting as business agent for the Japanese in seeking markets for Japanese goods in the United States to help make up the balance.

Great changes have taken place in Japan. But there is no doubt that apart from the disappearance of the armed forces, the shedding of the imperial divinity, and the revival of free elections, nothing fundamental has gone.

U.S. Headquarters has lost many good men from the staff and has grown more cautious in policy. The Japanese know well how to resist change. Premier Yoshida has been quick to exploit the outspoken anti-Russian temper of Headquarters by starting a drive on labor unions at home and referring openly to the menace of the Soviet Union abroad.

Very little impression was made on the old Japanese bureaucracy. No great damage was done to the old agrarian and industrial systems. If change comes, it will come slowly.

Japan is still an American show. The Russians, blocked in the Allied Council for Japan and the Far Eastern Commission from having any real say in the governing of Japan, have intensified their propaganda broadcasts in the Japanese language from Siberian stations.

U.S.S.R. in China

By their influence over Northern Korea and their special position in Manchuria, the Russians assure themselves a voice in shaping the economic future of both China and Korea. If Northern Korea and Manchuria were cut off from the area to the south, there would be a serious limitation of the economic potential of China proper and Southern Korea and an added difficulty in solving the agrarian and industrial problems of the Far East. Yet this is the line of least resistance.

The worse the situation becomes in China, the more likely America's military ambassadors are to think of Japan as a better potential ally than China. There will be a great temptation to cut losses of U.S. in China, to agree to a division of spheres of interest across Asia in fact if not formally.

The weakness of America's China policy is that it is unilateral. The Russians have demonstrated that they have enough strength in China to block a purely American solution. The risks involved in sharing the problem with the Soviet Union are less than those involved in the alternatives of getting out completely, backing the Nationalists to the hilt, or recognizing the Communists.

Soviet Interests

Whatever the Russians may think of the prospects for, and the desirability of, a strong United Nations, it is clear that they are taking no chances and are attempting to break up any possible combination of powers which might be aligned against them. They will stay in the United Nations because to leave it would mean presenting the rest of the world with a ready-made alliance in working order.

It is to Soviet interest to have a dependent China which will vote with the Soviet Union in the United Nations. But if this is not possible, then the next best thing may be to have a weak and divided China, part of which will sooner or later be legally separated and will come under Russian influence. Since the Communists are certainly in no position to take the rest of China by force at the present time and cannot persuade the Nationalists to surrender control without fighting, the only policy left for the Soviets and the Communists is to play a waiting game.

This means keeping up negotiations with Nanking in order to avoid blame for starting the civil war, and at the same time holding on to as much territory and populations as possible, retreating, if necessary, to areas contiguous to Soviet territory. This is exactly the policy the Chinese Communists have been following.

Knowing the weak points in America's liberal armor, the Russians accuse the U.S. of trying to dominate China. The cry of imperialism and dollar diplomacy is again raised.

Future Policy

Retreat is impossible because it would be no solution and would hand over the field to the Soviet Union. Coming down on the side of the Communists is equally out of the question. There is the present policy of limited dealings with the Nationalists while encouraging the formation of a coalition government and a national army. The chances of success are slight. Only two possibilities remain.

One is to give all-out support to the Nationalists and trust that they can suppress the Communists by force. The alternative is to face the issue head on with the Soviet Union, as part of a general settlement of the Far East. Both politics and economics demand that this solution be attempted.

II.

Throughout Asia at the end of the war Britain was at an all-time low in prestige—both the prestige of power and the prestige of ideas. America was at an all-time high. There was not a people in Asia which did not look toward America for leadership in ideas and for initiative in action. In little more than a year since V-J Day, the British have accomplished more in rebuilding their prestige than anyone could have predicted, while American prestige has fallen again and again.

The British have been dodging through a maze of tight squeezes. They are far from being in the clear yet, but they have been able to cover their weakest position, which is not at the Suez Canal but in Iran, by demonstrating that they have American backing. In the meantime the concessions which Britain has made in Egypt, India, and elsewhere are really very moderate, and involve little surrender of real power; but with the

withering of Asiatic hopes for some kind of Rooseveltian New Deal for Asia, the British policy benefits by appearing more liberal than it really is.

America, on the other hand, has been following policies that are conservative and old-fashioned, or even archaic, rather than calculatedly reactionary; but the American policies appear more reactionary than they really are, because so much was expected. Colonial powers are disliked bitterly, and sometimes blindly, by their subjects, with the result that the concessions yielded by Britain have come as gratifying surprises.

Backing of Rightists

America suffers by comparison because everybody in Asia had looked to America, and to no other country, for democratic programs and policies. In Korea, in Japan, in China, and in the Philippines, however, only extreme right-wing individuals and organizations have been chosen as the instruments of American policy, which has caused not only disappointment but disillusionment.

The American fear of Russia has not been accepted as sufficient justification for backing right-wing groups as the only trustworthy guarantors of law and order. With the exception of North Korea and Manchuria, Russian power in Asia is a legend but not a visible presence. It is the American power which is present and visible. Moreover, the right wing is unpopular in all Asiatic countries, with the partial exception of India; and because the right wing is feared as already too powerful, moderates, as well as leftists, do not like to see American power lined up behind it.

Economic debacle in China

In spite of Britain's exhaustion and America's strength, the American position in China is more awkward than the British position in India. Chiang Kai-shek, like the head of any government, calculates in terms of the total support which he can muster. Chiang's domestic support has dwindled at a terrifying rate, until American policy has become a support without which he would have to surrender a great part of his power and alter his whole philosophy of government.

Even the support of industrialists and businessmen in his own country is now negligible. In the economic debacle of post-war China there are only politicians and bureaucrats mismanaging a financial and industrial structure which is in chaos. Washington is soberly aware of the fact, though of course it is not widely publicized, that the only orderly production of either food or commodities in China is in areas controlled by the Communists, who in theory ought to be subversive and disruptive, but in practice are good managers and administrators.

The awkwardness of the American position is that it cannot be held merely by marking time. The Chiang government needs continuous support just to keep it up to par. The moment support is diminished, it falls below par. As an instrument serving American policy, the Chiang government is nowhere near good enough for the job; yet again and again it has to be paid for at black-market prices. If it were a straight case of American intervention against Russian intervention, the problem would be simpler; but the intelligence coming in still shows no Russian money, Russian equipment, or Russian master-minding among the Chinese Communists.

The Communists are, in fact, putting on pressure by demonstrating that coalition government, which American policy has endorsed in theory, is practicable. They have given arms, as well as political jobs, to non-Communists, with the result that non-Communists can talk to Communists on equal terms, in a coalition based on common defense against the pretensions of the Kuomintang.

Washington is still hoping that the tension will break in a way that makes a solution possible; but the hope is a gamble. The theory is that if the Chiang government tries to subdue the Communists by civil war, it will be forced to admit that the job is too big. It is hoped that the Whampoa military clique, the C.C. (Chen brothers) machine in the Kuomintang, and the secret police, chastened by failure, will then permit the formation of a coalition government.

An American Fortress: Japan

Aspirin in Japan is one cure that has been proposed for the United States headache in China. According to this theory, the Kuomintang is past saving and should be abandoned; but Japan has a fine military tradition, a fine anti-Russian tradition, and industrial and managerial know-how as a bonus. Japan should therefore be salvaged as an American Gibraltar off the mainland of Asia—superior to Gibraltar in its ability to provide a tough, self-contained colonial army.

The theory has been discussed with relish by some of the Americans in Tokyo from the moment that it was discovered, with amazement and delight, that the Japanese were as willing to obey American military orders as they had been to obey the orders of their own militarists.

Paradoxically, however, Japan's unshattered social order is the bane of this theory. The first free election in Japan, held under American protection, was a genuinely free election; but it was held too soon. The ward bosses, who could turn out a bigger vote than anyone else, were loyal to the extremely conservative political machine.

The election therefore put back into power the old industrial, banking, and conservative interests which were technically not "militarist," but which had in fact organized the sinews of war for the militarists. These men are old hands at running the country; they prefer to run it by fascist methods; and their program is first to convince the Americans that they are trustworthy, and then to engineer a switch from Japanese implementation of American policy to American backing of Japanese policy.

The Leftists in Japan

The Japanese leftists have set out to build a wide coalition of all those—and they are many, and their fears are legitimate—who are disturbed by the return to power of the unrepentant rightists.

Japan's leftists would have made a good showing at the polls if the elections had not been held too soon. Frustrated in the elections, they have turned to the trade unions and to a versatile technique in organizing mass demonstrations. MacArthur's staff consequently finds itself increasingly plagued by political agitation outside of the parliamentary system, as the penalty for having sponsored an election which did not result in proportional representation within the parliamentary system.

A recent poll shows that the Communists, though they rate only 4.8 per cent of the electorate, have increased 50 per cent over their 3.2 showing in the April election. The most important change is in the growth of the Socialists. In the April election, 18 per cent of the electorate voted for them; 40 per cent would vote for them now, if a new election were held. The significance of this shift is confirmed by the fact that support for the rightists in the Diet has fallen nearly 10 per cent.

Political Trends

The trend shows that in little more than a year, during which time America alone has controlled the administration of Japan, not hesitating to rebuff all attempts at international supervision or even effective international participation, the Japanese have divided into two groups. One group tends to shrink in numbers and at the same time to become more openly reactionary.

The other group is tending to grow in numbers. It appears to have begun to lose hope in an American-inspired democracy. In its revulsion against the American-patronized conservative parties, this group is constrained more and more to associate both national self-respect and the hope of an ultimate democracy with a left-wing philosophy of politics.

It is this measure of the ground America has lost which provides the best standard of comparison between the American and British post-war records. Britain, like America, has everywhere tilted the balance in favor of conservative groups against groups which are left of center; but on the whole Britain has succeeded in holding political issues within the framework of the rivalry between nationalism and the imperial interest.

America, sometimes unwillingly and sometimes willingly, and to her own disadvantage, has allowed power politics to be conspicuously identified with groups which, in addition to being rightist, are regarded as anti-nationalist in their own countries because of their willingness to be subservient to the American interest. The corollary of this identification is that nationalism and the left wing are encouraged to associate with each other and to fortify each other.

Position in the Philippines

Developments in countries like the Philippines and in colonial possessions like French Indo-China and Dutch Indonesia reflect the trends in the major countries which set the tone of policy in Asia. In the Philippines, policy appears to be less subtle than in any other country in the world except Spain.

The government of President Roxas has ordered the Philippine National Bank to compensate Americans for their pre-war deposits, which the Japanese had spirited away into Japanese banks. The sum involved is only two million dollars, but U.S. Ambassador Paul V. McNutt, speaking in what is now a foreign country, has "expressed the hope" that other Philippine banks will recompense Americans in the same way.

Compared with the billions in which the U.S. think nowadays, a few million dollars is only chicken feed; but the favoritism toward Americans is so hasty that Filipinos can hardly fail to draw the conclusion that American chickens feed exclusively on a diet of pounds of flesh. The Philippines have been ravaged by war, and the money will ultimately have to be paid by underfed tenant farmers.

The Huks

In the meantime President Roxas is continuing to move in on the Hukbalahaps of the rice-bowl area of central Luzon. A thick curtain of American indifference has fallen over this agrarian movement and its demands for the reform of a galling system of peonage. The Huks were originally an anti-Japanese guerrilla organization, and the most effective of all the guerrillas in the Philippines. There are Communists among them, but the proportion is not nearly so strong as in the wide popular coalition now led by the Communists in China. A United Press reporter who toured the Huk area found no evidence of Russian influence.

On the whole, the demands for agrarian reform and democratic representation of the Huks are parallel to those of the Communist-led coalition in China. The Falangist trend of the Roxas government is also parallel to the near-fascist bias of the C.C. and Whampoa cliques in the Kuomintang.

The difficulty of suppressing the Huks by civil war, even with American aid, is yet another parallel to the situation in China. The Huks are supported by a population of about 2 million—too large a proportion of the Philippine total of 16 million to be dealt with easily by extermination.

Most important of all, the degree of American involvement on the side of an anti-democratic government, in the Philippines as in China, results in rallying both ordinary colonial nationalism and ideological leftism behind the peasant movement, because it is the Americans themselves who allow the conviction to spread that what the Americans call democracy pays off in privileges for Americans but not in rights for Asiatics.

Confidence in Hongkong

The reported large-scale rehabilitation of Hongkong & Whampoa Docks (owning establishments in Kowloon, the Cosmopolitan and Aberdeen Docks) has been received here with expression of satisfaction. It is reported that Butterfield & Swire have ordered in U.K. a considerable amount of plant which will be shipped out here for the rehabilitation of the Taikoo Dockyards. The same firm also will rehabilitate their sugar refinery in Quarry Bay but resumption of operation even on a reduced scale will depend more on the ability to obtain raw materials. Another encouraging report states that rehabilitation and expansion work at the Royal Naval Yard is expected to get underway at an early date. At a previous occasion it was announced that British Pacific Fleet would use Hongkong as headquarters.

The early construction of a new air field of Hongkong will contribute much to rehabilitate the Colony and enhance its budding prosperity.

Financial & Trade Problems of Hongkong

The Hongkong Correspondent of "The Economist", London, summarises some local problems as follows:

A sharp reminder that rehabilitation has to be paid for was administered by the Financial Secretary of the Hong Kong Government when presenting his Budget. The deficit for the year end March 31, 1947, was estimated at \$115,425,000—roughly £7,250,000. Expenditure for the year is estimated at \$160 million—more than three times the revenue. It was pointed out, however, that the rehabilitation programme to be effective must be carried out with the greatest possible speed, and for the next few years expenditure is bound greatly to exceed revenue. The excess will have to be met by borrowing, but it has been decided to postpone the flotation of a loan until the first half of 1947, when it should be possible to ascertain how much will ultimately be needed. Meanwhile the fact that within eleven months of the liberation revenue can be put down at about \$50 million reflects the progress made.

The biggest item of expenditure is "Personal emoluments," which, with high cost-of-living allowances, amounts to \$39 million, as compared with \$17½ million in 1941. There are also heavy increases under the headings of Education, Medical Services and Public Works, the last-named covering the cost of reconstructing various Government buildings. A new departure is the provision for a Development Secretariat, which, it is hoped, will enable Hong Kong to make a start as a producing colony. During 1941 new sources of revenue were tapped, the main one being a form of income tax. This particular tax was criticised on the grounds that it was discriminatory in its nature because of wide evasion on the part of Chinese individuals and trading corporations. Whereas British and foreign incomes could be checked with ease by reason of the fact that company accounts were properly audited and individual incomes vouched for, Chinese capitalists and trading concerns were able to cover their tracks through a multiplicity of bank accounts, often in the name of nominees. Nevertheless, the War Taxation Department is unravelling tangled Chinese finances and hopes in course of time to rectify the previous inequality of contributions. But even so, other means of raising revenue without endangering the status of Hong Kong as a free port will have to be found.

Trade

The trade statistics for the first half of 1946 show how rapidly the commerce of the Colony has regained lost ground. The disparity between pre-war and current prices makes it impossible to make a comparison of the actual volume of trade and conditions are still so far from normal as to discourage any attempt to judge the trend of trade from the published figures. The total value of imports for the first six months of the year was \$345 million, while exports were \$252 million. These figures are not far different from those for the first half of 1939, imports being about 15 per cent higher and exports 15 per cent lower. The main interest in a comparison of the 1939 table with that for the past half year lies in the disappearance of German and other European countries, Japan and Burma, and the change, temporary though it may be, in direction. Whereas imports from the United Kingdom are almost half what they were in 1939, the value of goods from the United States is nearly 3½ times as much. Imports from North China have gone down from \$14½ to \$4½ million, yet exports have gone up from \$5.2 to \$8½ million. On the other hand, imports from South China in 1939 were a mere \$4½ million due principally to the occupation of Canton by the Japanese. During the past half year they rose to over \$10 million, while exports increased from \$2.7 to \$13 million. It is surprising to find that imports from Indo-China, where during the early part of the year political unrest was interfering with trade, rose from \$3 million to \$8½ million. The current half year will no doubt show increasing quantities of goods arriving from the United Kingdom, for it was not until March that shipping services were available for commercial freight and, owing to inordinate delays in Singapore, shipments have been taking three months or more en route. Despite the various restrictions Hong

Kong still retains a considerable entrepot trade, and there is a growing tendency for goods ultimately destined for Shanghai and its hinterland to be discharged here. Moreover, the ravages of war and the restlessness of labour have so far had less effect on shipping than in other ports such as Singapore, Manila and Shanghai.

Aviation

The situation of Hong Kong as a junction for air lines calls for the provision of servicing facilities to match those available for shipping. It is admitted that the present airport, which was enlarged by the Japanese during the occupation, is unsatisfactory, being hemmed in on the north by a range of hills. Shortly after the liberation a start was made on a new airfield near the border between the New Territories and China, but after some months this work was abandoned, as happened in the case of another projected aerodrome shortly before the outbreak of the Pacific war. Plans for yet another site are now under consideration, and it is hoped that Hong Kong will in due course be adequately equipped to handle the increasing air traffic which is attracted by the natural advantages of the colony. There has been some criticism of the dilatory attitude adopted by the authorities in this all-important question, but, with the experience of two projected schemes which had to be abandoned, it is not surprising that time and consideration are being spent on studying the plans before coming to a decision which must be related to a long-term policy. The new aerodrome, if approved, as is likely, should be ready for use within about two years.

Resumption of Stock Exchange Trading

The Committee of Hongkong Stock Exchange decided to open the doors of its trading room as from January 2 for the purpose of arriving daily at a uniform rate of all share transactions which take place. Rates at which shares change hands daily with the permission of the Supreme Court Registrar of Companies can now be termed official.

It is hoped that the amalgamation of the Stock Exchange with the Sharebrokers Association will be concluded around Jan. 20. Meanwhile the brokers of both organisations meet in the Stock Exchange trading hall. The name of the new organisation has been tentatively stated as "The Hongkong Stock Exchange (1947) Ltd."

The establishment of official rates as from beginning of this year has had already its beneficial effects on the investing public. Rates are now reliable and the uniformity of daily prices definitely encouraged investment of new money in local shares.

London share brokers wired to Hongkong to find out local stock quotations of leading shares. Considerable interest is shown on the London share market for Hongkong scrip. London brokers express the hope that regular trading will soon be re-established in the Colony and other Far Eastern places.

Business during the Week

The week under report (ending Jan. 4) saw only few trading days, however, volume of business was much larger than in previous weeks which was primarily due to the establishment of official rates by local share brokers. Idle money that had been waiting for investment is coming into the market. Confidence in the daily rate is a valuable incentive for the investing public. A tight money position obtains only with regard to importers and overbought merchants; Chinese capital coming here regularly from Shanghai and other ports is easy and in search of investment and returns. More "hot" money from outports has continued coming here.

The undertone is very firm and we do not expect any weakening of rates between now and the last week of January (Chinese New Year).

Brisk Business Before Chinese New Year

The current week saw increasing demand for a number of shares with Hotels and Docks in the limelight. Hotels which quoted on Monday (January 6) \$153 improved on January 7 to \$17 with demand still strong.

Docks quoted on Tuesday (Jan. 7) as high as \$191. All-round interest in shares has received a strong stimulus from reports circulating in the market which indicate very good earning prospects of leading companies and considerable rehabilitation projects well advanced towards realisation.

Hongkong & Shanghai Hotels owning Astor House in Shanghai have, according to market reports, been approached by a capitalist group for the purpose of this large hotel property in Shanghai. The tentative purchasing price was rumoured to be HK\$4 million. At the moment the Astor House is operated by a foreign organisation whose lease on the hotel will expire by the end of January.

Constructional plans in Hongkong and Kowloon are expected to boost in due course the demand for cement. Large imports of cement from Haiphong have recently arrived here. Green Island Cement which at present are not operating may sometime in early Spring resume working.

Issue of new Capital

The market was expecting the issue of new capital by Hongkong & Whampoa Dock Co., Ltd. The present issued capital amounts to \$4,719,760 (in \$10 shares) while the authorised capital amounts to \$10 million (in 1 million shares of \$10 each fully paid). Mollers' Ltd., leading ship owners and builders in the Far East, are reported to negotiate for the acquisition of a controlling interest in the Dock Co. Mollers who have extended their activities to shipbuilding in U.K., shipping business and mining in Africa, beside their business in Shanghai, will, according to market reports, contribute to a large extent to the rehabilitation of the Docks which have badly suffered during the war years. It is believed that the Company will issue to Mollers the balance of the issued capital to bring it up to \$5 million; these 500,000 shares will be taken over at \$10 each. 500,000 shares at \$20 each will be issued by the Company as follows: 200,000 shares to Mollers, and 300,000 shares, to be offered to shareholders, which will be subscribed to by Mollers Ltd. The capital investment by the British shipping firm will amount to HK\$10,280,000.

Hongkong Share Business

In the early part of the past year transactions in shares began slowly to take place, and as there were no reliable means of arriving at a fair market value, quotations at which shares changed hands in the Black Market showed a very considerable disparity from day to day. Cements were done as high as \$26, Telephones \$41, Electrics \$40, Ropes \$18, to mention only a few quotations. When members of the Stock Exchange returned to Hongkong an effort was made to establish a proper and regular market and as time went on the volume of business markedly increased and confidence was slowly restored. The restrictions on trading in shares imposed by the Government primarily to safeguard the investing Public against scrip which may not have a good title appear to have been justified earlier in 1946; however, the time has certainly now arrived when these onerous restrictions should be removed.

Those who wish to enter into a share transaction are quite capable of safeguarding their interests and members of the Stock Exchange are always ready to investigate any questionable scrip. So far we have not heard of any one complain of being involved in a transaction where the scrip was not a good delivery.

It is hoped that Government will soon see its way to withdraw all those restrictions which are now observed more in the breach than in the performance. This especially applies to those Companies whose share registers are now open for the transfer of shares.

Nevertheless in spite of these Government imposed disabilities the market is gradually assuming normal conditions, and though passing political perturbations may influence quotations from time to time, the technical position in our opinion is definitely sound and healthy. We cannot discern any reason why the year of 1947 should not witness a general all-round improvement in quotations.

Our opinion is based on the belief that many of the local companies will produce good accounts for 1946 and shareholders may reasonably expect a generous distribution when dividend time comes along, particularly as regards those companies who have done extraordinarily well. We have heard of a number of very satisfactory and generous bonuses being paid to staffs, and salaries and wages paid for the war years; shareholders of these public companies who are generally an inarticulate body will certainly and with good justification expect similar consideration to make up for their loss of income and the low purchasing power of the Hongkong dollar.

It is generally expected that there will be several new issues of Capital to provide for rehabilitation and development where companies are in need of it, and shareholders will have the opportunity of subscribing to such new issues. While on this question of new capital we might mention there are some local companies with assets out of all proportion to their capital and we have heard it expressed by several well-informed people in town that the assets should be revalued on a conservative basis to bring them more into line with the earnings of the companies concerned.

Market tendency at the end of 1946 was improved and steady. Though share prices may remain on more or less the current level and transactions cannot be expected to increase much over the present volume, the outlook for more activity after Chinese New Year (Jan. '22) is promising.

Enquiries for most of local shares continue at about quoted prices.

HONGKONG STOCK EXCHANGE PRICES

Closing quotations as on 4th January, 1947.

	Buyers	Sellers	Business done during the week or Last Sales
H.K. Govt. Loans:			
4% Loan	106	—	107/107½
3½% Loan (1934)	102	—	—
Banks:			
H.K. Bank	1,350	—	1,350
H.K. Bank (Lon. Reg.)	—	—	86
Bank of East Asia	120	—	—
Insurances:			
Canton Ins.	340	350	—
Union Ins.	635	640	—
China Underwriters	1	—	—
H.K. Fire Ins.	240	250	—
Shipping:			
Douglases	200	—	—
H.K. Steamboats	12	—	—
Union Waterboats	22½	—	—
Docks, Wharves, Godowns, etc.:			
H.K. & K. Wharves	131	—	131
H.K. Docks	16	19	15/18½
Providents	12½	—	12½
Mining:			
Raub's	—	—	4.80
H.K. Mines	—	—	4 c.
Lands, Hotels & Bldgs.:			
H. & S. Hotels	15½	16.25	15.90
H.K. Lands	74½	—	75
H.K. Lands 4% Debentures	103	—	—
Humphreys	17½	—	17½
H.K. Realities	15	—	15½
Chinese Estates	150	—	—
Public Utilities:			
H.K. Tramways	28	28½	28½
Peak Trams (Old)	—	11½	—
Peak Trams (New)	—	5	—
Star Ferries	64	—	—
Yaumati Ferries	22	—	—
China Lights (Old)	8½	—	9/9½
China Lights (New)	5	5½	—
H.K. Electrics	29½	30½	30/30½
Macao Electrics	—	18	—
Telephones (Old)	31½	—	—
Telephones (New)	18	—	—

Financial Notes

Oversea Chinese Remittances

There was a further decrease in estimated December remittances to China from Chinese in U.S. While remittances from all overseas sources to the Bank of China in November totalled less than US\$24 million, against about US\$5 million received on the average in the earlier months of 1946, the December statistics show another 10 percent reduction.

Sales of Alien Properties

The Alien Property Administration in Shanghai has disposed during 1946 Japanese, German and "puppet" properties to an estimated total value of less than CN\$500 billion.

Godowns previously holding "enemy" commodities have been practically cleared and there remain only few properties to be sold during next few weeks.

Hongkong & Shanghai Banking Corp.

The following branch offices of the Bank have been re-opened for business during the first week of January: Amoy, Hankow and Peiping.

Gold Imports into Shanghai

Customs returns for the month of November do not show any new arrival of gold imports from America; the position remains the same as pointed out in our Dec. 4 issue (page 9). However, reports from New York indicate that bullion brokers are shipping "fair amounts" regularly to China, and that such shipments have been taking place over several months in 1946. New York dealers deplored the failure "to arouse Chinese interest in silver" but appear to be satisfied with what has been achieved as far as gold is concerned. According to New York bullion brokers, estimates of gold shipments to China were hard to arrive at because gold had been reaching U.S. on transit Bills of Lading, with some gold coming from London and some from Mexico. A leading bullion dealer stated that one of his latest shipments to China totalled 10,000 ounces which he believed to be fair average.

Local financial observers are surprised to learn that in spite of very large sales of gold in Shanghai, part of which originated in America, no official records were released about bullion importation except earlier last year an amount of 400,000 ozs more or less as was reported in this paper (Dec. 4 issue).

Banknote Exports from Shanghai

According to Customs figures only HK\$163,000 and US\$2,008,000 were exported from Shanghai during the first 11 months of 1946.

Silver Exports from Hongkong

Ingots, silver dollar and subsidiary silver coins are bought here by banks and bullion dealers in considerable quantities for shipment to Calcutta and other Indian places. Shipments during recent months have been very large. Returns for first eleven months of 1946 will be found in our Dec. 18 issue (page 7). The current buying price for one Chinese silver dollar is HK\$2.85.

Industrials:

Canton Ices	—	—	1
Cements	13½	—	13½
H.K. Ropes	9½	—	—

Stores, &c.:

Dairy Farms	30	—	30½
Watsons	20½	—	—
Lane, Crawfords	21½	—	—
Sinceres	—	—	5
China Emporium	4½	—	—
Sun Co., Ltd.	2.60	—	—
Kwong Sang	—	—	—
Wing On (H.K.)	170	—	—
Wm. Powell, Ltd.	70	—	—
	—	3	3

Miscellaneous:

Entertainments	—	—	29
Constructions	—	—	—
(Old)	—	—	4½
The Sun (H.K.) Co.	2.60	2.70	—
The Sincere Co.	—	5	5

Gold Sales in Shanghai

The largest sale of gold bars in 1946 occurred on Dec. 23 when Central Bank sold about 15,000 bars; this day brought the record quotation of almost CN\$4 million per bar of 10 ozs. The unprecedented gold sales brought the high price of gold down by about 25 percent but soon after this collapse prices recovered when Central Bank gold sales were not kept up. Price movements during last week will be seen from the quotation table below.

Many speculators had to declare themselves insolvent after Xmas in the course of the gold dumping by Central Bank; charges are heard in Shanghai that the Bank instead of supporting the gold market by steady sales held back for about two weeks and then came out with a sales avalanche which was not expected and caused heavy losses and bank-cupties. The list of victims includes two native banks, one stock broker, one big goldsmith, and a number of smaller brokers and gold dealers. Losses in this gold slump were estimated at about CN\$3 billion. Another consequence was the immediate increase in interest rates which came up to 22 to 25 percent per month.

Not connected with the speculation in gold several closures of factories, business houses and shops were reported during the two holiday weeks. Suspension of operation of commercial enterprises are daily reported in the Chinese press.

CN\$ Circulation

Chinese bankers and financiers cannot be discouraged to estimate every now and then the amount of fapi at present in circulation. Some supposedly educated guesses earlier last November gave the fapi circulation at between 14 to 34 trillion CN\$. The latest estimates compiled by two professors, Messrs. Wu Chi-yuan and Chang Lai-chi, state that the minimum circulation at the end of 1946 was 4 trillion while the maximum circulation is supposed to amount to 20 trillion CN\$.

Mexican Gold Coins

Most of Hongkong ordered Mexican gold coins have already arrived here with a small remnant still to come. Chinese native banks, the largest buyers, estimate the total of gold coins at about 160,000 pieces (1 coin equals 1 tael). The C.I.F. price was about US\$50-51 per coin (tael) or, computed at the average open funds rate of New York, about HK\$255. The profit per coin was on the average HK\$50 since the current gold prices fluctuated recently between HK\$300 to 320 per tael. The importing agents (Banks; merchants with close connections to U.S. Treasury) usually made a profit of 5% as commission; the gold buyers (exchange shops, native bankers, bullion dealers), while paying rather high interests (abt. 3% per month) which was aggravated due to the long delay in delivery following the U.S. West Coast maritime strike, were extremely satisfied with profits ranging from 15-20%.

Gold coins in trans-shipment to Macao (compare our issues Dec. 4 & 11, p. 9), while a few weeks ago arriving at the Portuguese Colony to the amount of some 45,000 taels, have recently come here in appreciable quantity. Altogether over 300,000 taels were licensed for import into Macao by the Department of Economic Services in the Portuguese Colony. However, only about half of this quantity was permitted by the local authorities to pass through Hongkong in transit for Macao. It is estimated that around 100,000 taels are still underway from U.S. to Macao.

In connection with these gold coin shipments many rumours were discussed in local and Macao financial circles. Chinese authorities have taken up the question of gold imports into Macao for a representation in Lisbon as it is claimed that much of this gold is not used in the Portuguese Colony but destined for importation into China. As a matter of fact Macao gold importers, applying for licence, stated that about half of their requirements were intended for export. It was in this connection that local authorities when inquiring for details regarding "exports" (which could not be supplied by bullion dealers) refused to permit further gold shipments in transit for Macao.

It appears that Mexican gold coin imports have definitely come to an end. The rumour, that after start of air communications with Macao (where the airfield is to be finished by about middle of February) some direct gold transports from Manila to Macao will be considered, is baseless.

U.S.\$ T.T. Rate

Owing to decreased demand and expected quiet conditions in U.S.-Hongkong trade for the next months, the open funds rate for U.S.\$ is bound to come down.

At the beginning of the current week the T.T. rate dropped to about HK\$5. Only in case of stronger Shanghai demand for U.S.\$ can the local rate be maintained. Within another 4-6 weeks the U.S.\$ note, draft & T.T. rate may be not much nigher than 10% over the official bank rate. There are still about US\$5 million to settle for gold imports but the pressure of oversea remittances is considerable and is tending to influence the present rate.

Chinese Communist Dollar

The Communist "Border Region" of Shensi, Kansu, Ninghsia issues through the "Border Region Bank" (President of the bank: Hwang Ya) so-called "Circulation Notes" equalling "Border Region" \$20. One "circulation note" has been fixed on Dec. 13 to CN\$2.30.

Exchange Markets

Hongkong

The last week (Dec. 30-Jan. 4) saw small activity during live trading days with rather stable prices and lack of rumours and speculative incentives. Gold prices were firm with increasing outport demand reported. Week's opening price was HK\$313½, week's highest price \$329, closing price \$322.3/4.

U.S.\$ notes were offered at around HK\$4.75 to 4.78 towards the end of the week; the illogical differences made by money changers for "brand new", crumpled, \$1 to 5, and \$10, 20, 50 & 100 denominations, and so many more petty rackets in connection with buying & selling prices do not affect the day's rate for larger transactions involving several thousand U.S.\$s. It is only the small man, the American merchant sailor and the waiter who are victimised by the money changer's chicanery in "discounting" US bank notes.

The T.T. rate for U.S.\$ came down from about HK\$5.20/5.22 at the beginning of the week to HK\$5.10 at the beginning of the year (Jan. 2) and closed weak at around HK\$5.05 on Jan. 4. Drafts were about 10 points lower, i.e. HK\$4.95.

CN\$ opening prices on Dec. 30 were HK\$70 and 87 for forward and spot respectively (for CN\$100,000). Closing rates on Dec. 31, 1946: \$67½ and \$91. Opening prices on Jan. 2, 1947: \$66 and 87½ for futures and spot. Week's closing prices (Jan. 4): \$65.3/4 and \$88½.

Sterling notes were not asked for and prices in the open bank note market came down to \$14.45 at one time, closing at \$14.60.

The Canadian \$, while quoting officially at par with U.S.\$, is not in demand at local exchange shops who quote about 20 percent less for Canadian than US dollars.

Shanghai

There were only 3 trading days on account of New Year holidays. Gold prices were strong and outport demand was on the increase. Price tendency is rising. U.S.\$ notes were quoted nominally at exchange shops around CN\$6,500; larger transactions were reported at around CN\$6,800 for notes and much over 7,000 for T.T. New York.

HONGKONG EXCHANGE SHOPS

Selling prices in HK\$

December	Gold per tael	US\$	*CN\$	£
30	318½	4.80	1,470	15.00
31	317½	4.80	1,130	15.00
January				
2	317½	4.78	1,190	14.75
3	324	4.77	1,145	14.70
4	322½	4.77	1,170	14.60

SHANGHAI EXCHANGE SHOPS

Selling prices in CN\$

December	Gold per oz.	US\$	HK\$	£
30	337,000	6,400	1,300	21,000
31	348,000	6,500	1,270	19,800
January				
4	355,000	6,500	1,300	19,800

Canton Trade & Financial Notes

Economic Supervision

Kwangtung industries and commercial houses are to be supervised by a new agency established recently by the Ministry of Economic Affairs. The "Industry-Commerce Supervisory Office" for Kwangtung-Kwangsi area, under its director Mr. Liu Yin-fu, has been set up in Canton. Cantonese merchants are not optimistic about the success of the new office's "guidance" and have publicly voiced their apprehensions about new and better red tape.

The supervision by the Central Govt. will attempt to control trade and production of Kwangtung and Kwangsi with the obvious aim to subordinate provincial interests to the interests of Nanking.

Cantonese merchants, coinciding with the start of the Economic Supervisor's duties, have publicly explained present conditions in Canton as follows:

"Private industry is suffering from (1) low production; (2) small scale operation; (3) dependence on foreign supplies; (4) tendencies to speculation; (5) improper distribution and adaptation.

Help should be given industry before commerce. Aid should be in the form of (1) amalgamation of small factories into large ones; (2) extended power-supply; (3) improvement of production technique; (4) setting higher standards for products.

Only commercial activities dealing with the materials and machinery and products of private industry should be given government assistance. Commerce outside this scope should be suppressed rather than encouraged."

Economic Promotion Program

The Kwangtung Provincial Finance Dept., which is headed by Commissioner Tu, has proposed the following 6-point financial promotion program which is intended to relieve the unfavourable economic position of Kwangtung:

(1) Setting up of hsien and municipal banks all over the province; (2) establishment of branches of the Provincial Bank in the remotest hsien of the province; (3) support and control of the business of money-changers; (4) loans to special enterprises from the four Government Banks; (5) assistance to commerce and industry, depressing usurious interests; (6) encourage the revival of pawn-shops.

Separation of Hainan Island

Prominent business men of Hainan have petitioned the Central Government to consider the administrative separation of Hainan from Kwangtung and the establishment of Provincial status for the island. The petitioners declare their dissatisfaction with the Canton authorities and claim the sympathetic support of two prominent Hainan natives: Mr. T. V. Soong, President of China's Executive Yuan, and Admiral Sir Andrew Chan Chak, former Mayor of Canton.

The seemingly irrepressible Communists of the island are the most important problem for Hainan but it is hoped that inter-island peace can be re-established if some kind of "home rule" is being granted by Nanking. The Kwangtung administrators and most Army officers from the mainland are not enjoying popularity among the natives.

Shunteh Sugar Plant at Jungchi

The manager of the Shunteh Sugar refinery, Yeh Kung-chao explained present conditions as follows: Installations bought by Chen Chi-tang from Czechoslovakia in 1935 are worth HK\$60 million, capable of a maximum output of 1,000 tons of sugar daily. Over a thousand workmen are at the plant, operating in three shifts of 8 hours each. Seven to eight catties can be produced from each 100 catties of canes secured from 51 cane merchants who get back five and a half catties of sugar for each picul of cane handed in.

Kwangtung Provincial Bank

As an aid in developing trade between south China and the United States, the Kwangtung Provincial Bank, Canton, has opened an Import and Export Division, as a subsidiary to its Trust Department. The new division plans to import the following from the United States: Building materials, fine and heavy chemicals, pharmaceutical preparations, paper and machinery. As to exports, the Bank offers substantial quantities of tung oil, bristles, Chinese botanicals and drugs and silk.

The Press of Canton

The daily papers of Canton are all under control of Kuomintang, the Army or Central Government authorities although a few have, only recently, secured more freedom to express their opinions in an apparently more independent way. The leading newspapers are: Kwang Chow Jih Pao, the organ of Canton City KMT; Hua Nan Jih Pao, the organ of Kwangtung Provincial KMT; Chung Shan Jih Pao, the mouthpiece of Nanking's Ministry of Information; Hsi Nan Jih Pao, Central KMT organ; Ho Ping Jih Pao ("Peace Daily"), Chinese Army (War Office) official newspaper; Chung Cheng Jih Pao, Chinese Army (Whangpoa officers group) organ; Chien Kuo Jih Pao, Chien Feng Jih Pao, Kuo Hua Pao, Yueh Hui Pao, Ta Kwang Pao—these five dailies, while KMT controlled, incline in one way or the other to appreciate liberal views (the editors do not observe the rigid KMT line).

The leading commercial daily is the Shang Pao which represents the bankers and merchants of Canton, trying to keep away from politics as much as possible and otherwise more frank about conditions prevailing in South China than any of its contemporaries.

Hongkong papers are read in Canton with the Kung Shang Jih Pao enjoying recently the largest circulation of all Hongkong dailies in Canton.

Freedom of Press

The periodical press has experienced much progress during 1946; this was partly due to the dryness and political caution observed by the dailies and the stereotype reporting on Chinese and foreign developments. Some weeklies and monthlies attempted to give more information and offer comments which the controlled newspapers could not afford to do. There are no Third Party publications printed in Canton and only few copies of Democratic or leftist journals, published in Shanghai or Hongkong, arrive safely in Canton. However, despite an unofficial ban by the authorities in Canton regarding importation and sale of non-KMT publications, smugglers have supplied and keep on supplying politically interested readers with Third Party and Communist periodicals and literature. Freedom of the press has not yet been translated into practice, and there exists considerable propaganda effort by the controlled press to inveigh against the opponents of the order as conceived by the Central and City KMT.

The official estimate of 38.8 million people living now in Kwangtung did not indicate how large continues to be the percentage of illiteracy; it is believed in Canton educational circles that more than 50 percent of the Cantonese and over 70 percent of the Kwangtung people cannot be expected to read and understand a newspaper. Political and other propaganda by the written word is therefore not very potent; oral propaganda has been widely used by the contending political groups to influence the largely uneducated masses. The Communists have been able, during the war years, to perfect a system of direct propaganda which now, as they are forced underground, proves its value.

Communist Activities

The East River Column and Hainan Column activities have been reported recently by the Army controlled press as foreshadowing unrest and clashes in the Province. There are rumours about the return of a large number of members of the evacuated Column's combatant sector with their Commander Tseng Sheng living incognito once in Hongkong and once in the Waichow area. Southwest Kwangtung (esp. the Chinchou and Lienchiang areas) is far from pacified by the Canton military headquarters, and reports of "banditry" and

insurrections elsewhere in the Province are rather frequent. There is, of course, banditry and piracy proper going on in Kwangtung against which no effective measures have been taken. Many of the pirates are well equipped, extorting large sums as "protection fees" and cooperating with powerful cliques in the country. Some of the pirates are collaborating with the smugglers. The press shows up such operations and often hints at strange connections between these outlaws and supposedly respectable groups in the country. Lamentations about high rate of crime, violence and civic insecurity are recurrent items in the Canton press.

Smuggling

The press is vociferous in blaming "specially privileged classes" with organization and support of the smuggling rings. It is obvious that smuggling has been condoned by influential groups as otherwise such enormous extent of this kind of unofficial trade could not have been reached. Bureaucratic capital is involved in smuggling enterprises, charges "Shang Pao", and other papers with merchant affiliations accuse discharged officers and other "ex-Army-men" with running smuggling rackets. Some estimates speak of smuggling trade being larger in quantity than the Customs recorded trade of Kwangtung. The old-fashioned professionals in the smuggling business have been superseded by modern, efficient and politically powerful groups.

Peace Talks

Peace feelers and battle reports follow each other in the Canton press; the apparently interminable tangle between KMT and CP, with China Democratic League (CDL) slowly coming up to noticeable political strength and influence, occupies always frontpage space and, although largely annoying the public, often takes up most of the "news" columns. CDL has become the target of violent attacks by KMT diehards and the military spokesmen.

Canton and the World

World affairs are only casually commented upon; the usual line is to lump all the contending powers, i.e. Britain, U.S. and U.S.S.R., into one pot by branding them selfish and imperialistic. There emerges little understanding for problems facing one or the other world power; one can summarise editorial comments of the KMT-controlled Canton press in one line: "All of these imperialists are no good".

The various nationalistic movements in East Asia, particularly the Viet-Namhese, find appreciation and encouragement by editors and news commentators. Although the Chinese Govt. does not recognise either the Viet-Namh or Indonesian governments, and overseas Chinese have not fared well with the authorities of the two regimes, the KMT-directive, it appears, makes it incumbent on the controlled press to play up the good points of the "independence seeking Asiatics", elaborate the oppressive practices of the past and present of the foreigners, and ask for moral support of the struggling nationalists in South East Asia.

On the whole anti-British writing, at one or the other time the fashion of the day, has recently subsided. However, there always is some rumbling audible "lest the British forget". Even at a moment of Anglo-Chinese friendship boosting, when Lady Cripps visited Canton, the "Chung Cheng Jih Pao" (Whangpoo Army clique), while praising those who aid China, singled out Hongkong Govt. which was called a blockhead playing viciously with Sino-British relationships, constantly exciting illfeelings in the Chinese by insults to China's emigrants and China's Govt.

Impolite language and almost grotesque distortions of facts appear every now and then in the Canton papers; actually some periodicals seem to thrive on slandering foreigners. During recent days America has received much attention by the most venomous sector of the Kwangtung press which, however, could not vie with the North China press for honours of better mudslinging.

KMT Registrations & Investigations

The Membership Investigation Campaign of KMT, which ended by December 25, purported to weed out the many undesirables which have succeeded in getting into the KMT for reasons of better job-hunting and

Japanese Shipments

The first shipment of Japanese cotton yarn which arrived here last week by s/s "Empire Fraser" (managed by Jardine, Matneson & Co., operated by British Ministry of War Transport) will soon be followed by another supply of cotton and rayon yarn. Shipments of yarn to Burma started simultaneously as was reported in our Jan. 1 issue (page 2). A total of 2,750 bales of grey cotton yarn, weighing 1,440,887 lbs. arrived here in transit for Rangoon.

Silk shipments from Japan to U.S. had started several weeks ago when 2,400 bales arrived in New York where they were auctioned off. The first consignment of Japanese silk of about 300 bales arrived recently in Australia. A large shipment of Japanese silk is about to arrive in England about middle of January; it comprises 1,000 bales and 200 cases, weighing 90 tons. The shipment is consigned to British Board of Trade.

Private traders are very much interested in an early resumption of business with Japan which at present is only conducted on a government-to-government basis.

Report from Osaka

The English language press of Japan, although reduced to only one sheet on account of newsprint and other shortages, do a creditable job of reporting; the English edition of "The Mainichi", published in Osaka by Mr. Kiyoshi Suko, reviews daily pressing problems in an editorial and informs the public by printing Japanese news agencies (like Kyodo), United Press, Radiopress, British and American P.R.O.'s reports.

The daily edition costs 30 sen, monthly subscription is Yen 9. At the official US\$/Yen rate (Yen 15 to US\$1) these prices appear reasonable.

The improvement of Japan's economic position is usually headlined and the public fully understands the importance of speed in the reconstruction of the war-torn country. Although progress has been made during 1946, and prospects are rather promising, the Japanese authorities prefer to take usually a stern view, always urging the people to exert themselves to increase production and lead a frugal life.

Significant was the Christmas statement of Mr. Keinosuke Zen, Director-General of Japan's Economic Stabilisation Board. The nation has now been called upon to concentrate on a large increase in coal production. Mr. Zen, who occupies one of the leading economic positions in new Japan, outlined the industrial position by emphasising that for the purpose of increased coal production other industries and even the production of civilian goods will be sacrificed until beginning of March.

To tide over the industrial crisis, it has become necessary for Japan to concentrate all potential industrial powers to boost coal output.

For the reconstruction of Japan's economy 2,500,000 tons of coal must be turned out per month in order to produce the total of 30 million tons in the next fiscal year beginning April.

exploitation of "golden opportunities". The high degree of corruption among, and undisciplined behaviour and procedures by KMT members occasioned large-scale combing campaign, investigations and Party court-martialing.

The City's KMT's "Kwangchow Jih Pao" was very frank in exposing evil practices by KMT members. Many members with a bad record did not even register any longer with the Party and were automatically deprived of their status. Others which had to undergo before the KMT Investigation Committee an "Appraisal of Quality" could not stand the test and are expected to be struck off the Party record. The City KMT is very much concerned about "licentiousness and decadence, cultural retrogression, carried over and in no way unhealed since the enemy occupation". The City Party organ stated that in Canton "we have a decadent society"; and further called on the people to improve their habits and "break away from mercenary aims".

To attain the set aim, a great sacrifice is inevitable for other industries in January and February, but recovery for March can be predicted.

According to the Govt. plan, a big reduction in passenger transportation will be inevitable.

As a result of these measures, reconversion of some industries and repairs of railroads would be retarded.

For the drastic switch-over of these policies, Mr. Zen urged the people to ensure coming hardships and to look forward to brighter times in March and April.

Interest in China

Developments in China are keenly followed and commented upon. The strife between contending parties, civil war operations and economic instability are noted and opinions are expressed in a sympathetic way. A "Mainichi" editorial, on Dec. 26, dealt f.i. with "China at the Crossroads", stating that a peaceful settlement of China's internal troubles may be hoped for after the end of the National Assembly Meeting in Nanking. The new Constitution of China finds much attention among the Japanese who see in it a step forward in China's advance towards democracy.

OUTSTANDING LOANS OF U.S. EXPORT-IMPORT BANK

Outstanding loans of the Export-Import Bank as of June 30, 1946, representing the difference between gross disbursements and repayments with a small allowance for losses, were \$727,000,000. The increase in outstanding loans during the first half of 1946, amounting to \$482,000,000, was the net result of disbursements of approximately \$499,000,000 and repayments of approximately \$17,000,000.

The sum of outstanding loans and undisbursed commitments of the Export-Import Bank as of June 30, 1946, was \$2,680,000,000. Under the present statutory limit of \$3,500,000,000 on the loans and guarantees of the Bank, its uncommitted funds as of that date were accordingly \$820,000,000. However, taking into account the \$500,000,000 earmarked for possible further credits to China, the amount available for new commitments was only \$320,000,000. Demands upon this remaining lending authority are numerous and large.

CHINA PRODUCE PRICES IN U.S.

New York, January 4, 1947		
Cassia Oil, per lb. F.O.B. New York	US\$ 3.35 to 3.75	
Aniseed Oil	1.15 to 1.20	
Antimony, American, 99½ per cent grade in bulk of carload lots F.O.B. Texas	0.23½	
Bristles, F.O.B. New York, per lb. as follows:		
Hankow, Regular Assortments	4.40	
Chungking	3.25	
Shanghai	2.10	
Tientsin, short 55's	4.40/50	
Tung Oil, in tank cars, per lb. F.O.B. New York	0.38½	
Sandalwood Oil, in drums (depending on sellers' quantity & quality)	15.00 to 20.00	

LONDON RUBBER QUOTATIONS:

No. 1 Ribbed Smoked Sheet C.I.F. Continental Ports, per lb.		
Jan./Feb.	13½d.	
Feb./Mar.	13½d.	

AVERAGE PRICES:

	1938	1939	Mar. 1941
London d. 7/7/32	d. 9.	d. 14/16	
Singapore S.S. \$ cts. 24.06	31.00	38½	
New York U.S. \$ cts. 14.60	17.50	22.65	

The International Bank for Reconstruction & Development and The International Monetary Fund

Late in September, following upon inaugural meetings held in Savannah last March, the governing boards of the International Bank for Reconstruction and Development and the International Monetary Fund gathered in Washington for their first annual meetings. Tentatively approved by technical representatives of 44 nations at Bretton Woods in July, 1944, and made effective by 30 signatures on December 27, 1945, the two financial institutions are now taking their places among the growing number of organizations dedicated to international cooperation.

Present for the meetings were the Bank and Fund Governors representing each of the 39 member countries, their advisers, observers from certain other countries and other international agencies, Executive Directors and Alternate Executive Directors of the two new institutions, and officers and members of the staffs that have been assembled. Of the 51 countries which are members of the United Nations, Russia and 12 others are absent from the rolls of the Bank and Fund. Four countries—Italy, Turkey, Syria and Lebanon—were approved for membership in the recent meeting, and the French quotas in the Fund and Bank were increased \$75,000,000 each to \$525,000,000.

Particularly because of the non-participation of Russia, the proportion of the total resources of the two organizations represented by the United States contribution has been automatically raised—from 31 to 36 per cent for the Fund and from 35 to 40 per cent for the Bank. In terms of money that is readily acceptable today in any part of the world, however, the American contributions are a much higher percentage, more like 70 or 80. It is a big stake—involving commitments running to \$5,925,000,000—that America has in the success of these new institutions.

Clarification of Ambiguities

The controversies provoked by the Bretton Woods proposals and ambiguities in the basic statutes are brought back to mind by requests for interpretations of the statutes by the United States and British Governments, as well as by abstention from membership by some countries, such as Australia and New Zealand, where fear has been expressed that the Fund would interfere with domestic policies or force them back to a gold standard.

The request by the British Government for an interpretation of Article IV, Section 5, of the Fund (on the right of a member to change its currency parity) is founded on the latter sort of apprehension. In essence the British asked whether they could devalue their currency without objection from the Fund if they considered it necessary in order to maintain full employment at a time when their balance of payments was under pressure. The Executive Directors of the Fund ruled, in effect, that there could be no objection to devaluation to combat chronic or persistent unemployment arising from pressure on the balance of payments, providing the action was necessary to correct a "fundamental disequilibrium"; but asserted the right of the Fund to determine whether the action proposed was indeed necessary to correct a fundamental disequilibrium.

Since so much depends on interpretation, this ruling still leaves unanswered the question as to how much solid meaning there is in the statutes of the Fund calling for the maintenance of stable currencies.

An American request, pursuant to a provision by Congress in the enabling legislation recommended by the American Bankers Association, was for an interpretation as to whether the authority of the Fund to use its resources extends beyond providing temporary assistance in connection with balance of payments fluctuations, or whether, on the contrary, the Fund can be used to finance relief, reconstruction, armaments, or large or sustained outflows of capital. The Directors ruled that the use was limited and not for the broader purposes. This is a welcome decision that somewhat allays fears that the Fund as set up invites misuse of its resources.

A closely related American request for interpretation was whether the Bank could make long term currency stabilization loans. The Executive Directors of the Bank ruled that, at least in "special circumstances," this was permissible. Here the problem was one of seeing that the doors of the Bank are open to an important type of credit need which, if not met by the Bank, will increase the danger that the Fund's resources will get tied up for long periods of years. The extension of long-term credits is not a proper function of the Fund.

Start of International Bank

The Bank fixed June 25 as the date for formally starting its operations. This did not mean the commencement of lending operations, but was a necessary preliminary, required by its statutes, to getting in capital subscriptions. A series of calls for funds is designed to bring in, by May 26, 1947, the equivalent of nearly \$1,600,000,000 (20 per cent of subscribed capital) of which more than \$700,000,000 will be in gold or United States dollars and the rest in other currencies.

The accompanying table shows how the Bank's resources will stand when these payments are in. The figures are based on the present capital subscriptions and membership.

Projected Resources of the International Bank, May 26, 1947

(Expressed in dollars or dollar equivalents)

Paid in Capital:	
Gold and U.S. Dollars	
subscribed by the United States	635,000,000
subscribed by other countries	90,927,000
	725,927,000

Paid in Capital:

Other Currencies—convertible (after the Bank's subscribed capital has been entirely called) into gold, U.S. dollars or a currency required to discharge obligations of the Bank

British pounds	234,000,000
Chinese yuan	108,000,000
French francs	94,500,000
Indian rupees	72,000,000
Canadian dollars	58,500,000
Netherlands guilders	49,500,000
Belgian francs	40,500,000
34 other currencies	207,828,000
	864,828,000

Subject to Call:

Gold or U.S. Dollars—or a currency required to discharge obligations of the Bank	
subscribed by the United States	2,540,000,000
subscribed by other countries	3,843,680,000
	6,383,680,000

except that they allow for the addition of the four countries recently approved for membership, and enlarged subscriptions by France and Paraguay. They do not allow for the admission of any other new members or deferments of payments not authorized as of September 27.

Whenever necessary to cover its contractual obligations to holders of its debentures or bonds which it has guaranteed, the Bank can call upon its members up to a limit of \$6,383,680,000 (the 80 per cent of capital not paid in for current operations) and calls under this provision would have to be met in gold, U.S. dollars, or those foreign currencies required to discharge the obligations of the Bank. The exact procedure for effectuating members' guarantees will presumably have to be established through some agreement upon interpretation of the rather brief provisions in the statutes.

With these resources, and proceeds from the sale of its own debenture bonds, the Bank has authority to lend or guarantee credits up to its \$7,979,600,000 subscribed capital (plus reserves and surplus that may be built up). The subscribed capital may be increased, up to the \$10 billion authorized, by participation of additional nations or further subscriptions by participants.

Some of the currencies held by the Bank, to be sure, will not be internationally usable. When losses arise and the need comes to call in more capital, the Bank more likely than not will find some countries unable to fulfill their obligations in gold or usable currencies. On the other hand, the amount which the United States and Canada may ultimately be required to pay in comes to \$3,500,000,000. Beyond that, the British pound is working its way back toward wider international usability, and there are numerous other countries which will have not only the desire but the resources to fulfill international obligations they have undertaken in the common good.

Bank Debenture Offerings

The Bank can make loans out of its own capital, but most of the funds it will make available to borrowers will be sought from private investors and institutions through its own debentures and bonds which it will guarantee. Thus the operations of the Bank will be subjected to the "test of the marketplace". The Bank expects to rely primarily upon the United States market, though offerings may also be made in some other markets where capital and products needed for reconstruction and development are available. The Bank is already considering loan applications, and is developing plans for the first offering of its own securities.

The salability of the Bank's obligations will be influenced by the character of loans the Bank makes, as well as by the kinds and terms of obligations it offers. Initial lending operations will be watched with keen interest.

The Question of Commercial Bank Participation

The question of goodness will be one for each investor to settle for himself. The American Bankers Association endorsed the Bank project at the Congressional hearings on the Bretton Woods legislation in the Spring of 1945. The Bank is not a relief organization. Its statutes provide that it is to make loans only after a competent committee has submitted a written report recommending the project after careful study of its merits, and with due regard to the prospects that the borrower will be in a position to meet its obligations. The United States has veto power over any loan to be financed by U.S. funds. The Bank can make loans, moreover, only after it is assured that borrowing cannot be done through commercial channels under reasonable conditions. Thus the Bank is organized to deal with borderline cases which are expected to be good loans but which involve a little too much risk for private lending.

The International Bank cannot rely too heavily upon borrowings for five or ten year terms. On many of its own loans, for reconstruction and development projects, considerably longer periods of time must be allowed for repayment, and the Bank's own financing ought to parallel at least approximately the repayment schedules on its own credits. In other words, the Bank should not "borrow short and lend long".

The International Monetary Fund

While the International Bank faces many difficult problems, it will have at least the advantage of using well-established lending techniques. Not so the International Monetary Fund, which will operate on quite different principles.

As originally proposed, the Fund plan was for an international clearing house or stabilization fund where financial settlements between nations could be carried out economically and simply by bookkeeping entries in terms of a new international currency. It was probably the outward reasonableness of this proposition, and—even more—recognition that a durable peace and prosperity would require friendly collaboration among nations and exchange stability that gained a hearing and eventual acceptance for the Fund proposal in the United States.

The plan for a new world currency was dropped in the later drafts of the proposal, but a novel provision for open drawing accounts was retained in the plan as put before the experts at Bretton Woods and accepted by them. What this means is that a country may, by deposits to the credit of the Fund on the books of its central bank, draw dollars or other scarce currencies out of the Fund. This was the plum in the Bretton Woods pudding, and the experts there vied with each other for bigger quotas (drawing rights) in the Fund and smaller contributions to the Bank.

The danger to the Fund in the open drawing account is that its supply of good currencies may be drained off in exchange for currencies not freely acceptable in international settlements. This peril is intensified by currency dislocations which the war left in its wake, worldwide inflation, the disordered state of government finances in so many countries, and expectations in some quarters that the Fund's resources would become available for relief and reconstruction. Unlike the Bank, the Fund will not be subjected to the test of the free market; there will be no way the public can record its reaction to the soundness of the credits extended.

Risks and Dangers

It is therefore distinctly encouraging to find, in the first annual report of the Executive Directors of the Fund, submitted to its Board of Governors September 27, such frank recognition of "risks" and "dangers", so many words of good advice to member countries, and so many disclaimers of the idea—that the Fund itself was a prescription for almost every sort of currency difficulty. The following are significant passages:

The road ahead is not an easy one. Although foreign aid has been of great assistance, it is important to recognize that recovery in the occupied countries has depended and will continue to depend primarily on their own efforts . . .

No monetary organization, however ably devised, can be a substitute for wise policies in the national and international sphere . . .

The primary sources of inflation or deflation are found in national policies. There is not a great deal that the Fund can do to eliminate the instability of domestic prices where the chief sources and price fluctuation are in domestic arrangements. But the Fund can help to minimize the effects of monetary instability by preventing it, to some extent, from spreading to other countries . . .

It is clear that in starting operations at a time when much remains to be done in reconstructing the war-devastated economies, the Fund runs the risk that some of its resources may be used for other than temporary assistance . . .

The Fund will clearly not serve as a relief agency like UNRRA: it cannot give foreign exchange away. Nor would it sell foreign exchange to a member when there is no reasonable prospect that the member will be able to repay the Fund.

This is all good sound sense. The question, however, is one of resisting political pressures; and there will be some tough problems to be faced in deciding how long is "temporary", and getting across some of the hard realities to improvident finance ministers who want to borrow more and more and who can cite chapter and verse to prove, at least to their own satisfaction, that they have the right under the statutes.

While the Fund has called for the par values of member currencies as of October 28, 1945, and offered to discuss "all matters related to the initial determination of par values", the actual fixing of exchange rates, except for the key countries, will presumably require months of careful study, and in many cases must await restoration of political and economic stability. The difficulties of attempting to fix exchange rates under present conditions are well described in the following statement from the Executive Directors' report:

Many countries have only begun to recover from the devastation of war; and the reconstruction of their economic and monetary systems will take several years. The wartime economic controls of many members of the Fund are still in force. Inflation, in varying degrees of intensity, is in progress throughout much of the world. International trade and international investment are only partially restored. Concrete measures for international economic cooperation, in spheres other than the financial, are not as far advanced as had earlier been hoped. International political cooperation leaves much to be desired.

Meantime, the call for par values should put to rest the constantly recurring rumors of new tampering with the dollar or a revaluation of the pound. Secretary Snyder and Chancellor Dalton have reaffirmed the present values of the two currencies which must serve as keystones for the stabilization of others.

Organizational Difficulties

Another problem faced by both the Bank and Fund is that of finding qualified personnel for two institutions. Pointing out that "In most countries there is a shortage of the kinds of skilled financial and economic personnel that the Fund and other international organizations are seeking" the Fund's report states that "Because of this shortage, the treasuries, central and private banks and exchange departments of many countries are unable or reluctant to release their personnel. Of those who can be released, a considerable number are reluctant to give up established positions to undertake new work in another country."

This is by no means an inconsequential problem, for the chances of success will depend in large measure on the quality of the men who operate these institutions. In many countries the men with proper qualifications for top positions are few in number—sometimes only one or two.

Besides the Managing Director of the Fund, President of the Bank, department heads and staffs of the two institutions who are supposed to do the real work, the statutes, based on the present membership, provide for 170 jobs as Governors or Alternate Governors, each entitled to attend annual and other meetings at the expense of the Fund or Bank; and a minimum of 48 jobs as Executive Director or Alternate Executive Director, each entitled to full-time salary.

The question has been asked before, and will be asked again, as to why two institutions with parallel organizations from top to bottom are needed. The United States set an example which a considerable number of other countries have followed, in providing that the positions of U.S. Governor of the Bank and U.S. Governor of the Fund should be held by the same person. A few countries have named the same man as Executive Director of both the Bank and Fund, but this is the exception.

All this lends force to the argument that eventually the two organizations ought to be combined.

A. S. Watson & Co., Ltd.

At the 57th ordinary annual meeting of shareholders Mr. C. B. Brown, Chairman of A. S. Watson & Co., Ltd., gave the following statement regarding accounts and progress made by the company:

The accounts have been divided into two parts—for the period November 1, 1940, up to December 31, 1941, with a balance sheet at that date, and those covering the occupational period from January 1, 1942, up to August 31, 1943. Concerning the first-mentioned period, we were fortunate to recover our general ledger dealing with the accounts over the period November 1, 1940, to October 31, 1941, but as our annual audit had not then been completed, it was considered advisable to include the succeeding months of November and December, 1941, in this particular statement. It was necessary to assess the trading figures for these two months.

As regards the Profit and Loss Account for 1940/1941, I observe that at the last yearly meeting which marked the hundredth anniversary of the founding of the business, the Chairman stated that "we enter on our second century of operations full of confidence concerning the years ahead." In the light of subsequent events, this confidence would hardly appear to have been justified. I would, however, point out that the net profit for this period of \$658,735 constituted an all-time record and this figure, with the balance brought forward from the previous year of \$83,059, has been carried forward.

Provision has been made for the payment of the General Manager's commission on the assessed net profits for the fourteen months instead of on the annual profits as required by the Company's Articles of Association. This is the common procedure in the case of Companies similarly affected.

Concerning the second part of the statement of accounts, covering the period from January 1, 1942, up to and including August 31, 1945—the date at which the Company resumed control—this has been divided into four separate headings, viz.: Charges less income applicable to period January 1, 1942, to August 31, 1945; Profit and Loss Appropriation Account; War Losses Account; Balance Sheet.

The account under the first heading shows charges of our London Agents of \$46,773 for carrying on the work associated with our interests during the Pacific War years. Provision in the sum of \$180,000 has been made for allowances to our European and local staff as compensation for losses resulting from hostilities of which I trust you will approve.

Normal depreciation over the whole period has been provided for, amounting to \$199,727.00.

The Profit and Loss Appropriation Account includes the charges less income applicable to the whole period January 1, 1942, to August 31, 1945, and after deducting these from the credit balance brought forward from December 1941, there remains a credit of \$317,208.38 which it is recommended be carried forward to the next year.

War losses as shown in the account amount to \$1,997,666. These are undoubtedly heavy and are mainly attributable to loss of stocks and to the fact that most unfortunately our sundry debtors records were lost. Consequently, the sum of \$560,386 will have to be written off in the latter regard.

As a result of our conservative policy in the past, the cost of replacing the fixed assets of the Company, lost or destroyed as a result of the war, will exceed the book value thereof: written off to War Losses Account, by the sum of \$228,424.12, of which, it is estimated, that \$141,500 will represent additions or improvements. A claim has, of course, been lodged for reparations and it will be seen that the amount of our war losses appears in the balance sheet as at August 31, 1945.

Progress of Company

I should now like to give you some idea of the progress made since the resumption of our business activities as from September, 1945, and consider it appropriate to refer with appreciation to the work of our staff, European and Chinese alike, who immediately following the capitulation of the Japanese,

made every effort to protect our interests from further damage arising from the looting prevalent at that period. Our European staff, released from internment, took steps to identify and recover substantial quantities of stock which had been transferred to various other premises by the Japanese and, as our aerated water plant and machinery and properties at North Point had escaped major damage, start three of the departments, namely, the aerated water, drug manufacturing and dispensing departments, although, as you will appreciate many difficulties had to be surmounted.

It does not come within my purview to deal with the estimated results of the post-war period of trading up to October 31 last, as it is intended that the Accounts submitted at our next general meeting will cover the period September 1, 1945 to October 31, 1946. We hope to hold such meeting at an early date. I will content myself with observing that in spite of the handicaps under which we are working, the result of our trading would appear to be satisfactory.

Directors of the Company: Sir Shouson Chow, Messrs. S. T. Williamson, M. H. Turner, W. Paterson.

Hongkong, Canton & Macao Steamboat Co., Ltd.

At the 122nd ordinary meeting of shareholders of the Company the Hon. Mr. M. K. Lo, the acting Chairman, outlined the position of H.K. Canton & Macao Steamboat Co., Ltd. as follows:

The Directors who took control after the liberation lost no time in making representations to Government with regard to the loss of the requisitioned steamers. All that we have succeeded in getting from Government was an intimation that a Claims Commission would be set up to whom we should refer our claims.

When addressing you at our last meeting in 1941 in respect of the 1940 accounts, the Chairman sounded a note of warning with regard to the immediate prospects ahead of the Company. I am sorry to have to confirm his forebodings, the loss on Working Account for 1941 having been \$169,383.18, which is inclusive of repairs and \$44,526.19 written off for depreciation of steamers and wharves.

The general trading conditions were poor and were aggravated by the intense competition for the meagre offerings available. They were such, in fact, that the disappointing result of the year's working became inevitable. I would add that but for the rigid economy maintained I would have had to report even worse results during the period under review.

Charges, including depreciation on wharves, less income from investments which accrued during the period January 1, 1942, to December 31, 1945, amounted to \$84,438.16, and have been transferred to Profit & Loss Appropriation Account, to which account your Directors, because of the loss of Company's fleet of steamers, have decided to credit the balance of the Insurance and Underwriting Account amounting to \$301,378.02, thus leaving a debit balance of \$188,821.74 on Profit & Loss Appropriation Account to be carried to the balance sheet as at December 31, 1945.

When the Japanese in 1941 decided to commit national harikari, they dealt this Company a cruel blow. At the outbreak of hostilities the Taishan was requisitioned by the Naval Authorities to serve as a depot vessel for HMS Robin at Sai Wan Bay, and to act as one of the boom defence vessels stationed there. On December 21, when HMS Robin and all other boom defence vessels were removed from Sai Wan Bay the Taishan was ordered to remain at her post.

On December 16 enemy aircraft attacked the ship, and while she received no direct hit bomb fragments pierced her shell plating under water and causing her to sink.

The Kinshan, under a Requisition Order from Government, was scuttled and used as a boom across the entrance of the Yaumati Breakwater. She was salvaged by the enemy after the war, but there is no record as regards her ultimate fate.

The Chungshan, anchored off Kowloon Bay as ordered by the Authorities, is understood to have been shelled on or about December 15 to prevent her falling into the enemy's hands.

Of the three vessels, the Taishan is the only one which presents possibilities of salvage. Apart from the question of finance, the Company has been advised that, pending the settlement of the Company's claims against the Government, it would be unwise for the Company to take any step in this direction except with the consent of Government and on the basis that our claims would not be prejudiced thereby. I regret to say that we have not succeeded in getting such consent.

I need hardly point out that the delay in honouring its obligations to pay for the requisitioned vessels lost on the part of Government has put this Company in a very serious position. We have had to remain idle since the British reoccupation, and this in the face of the tremendous need for shipping facilities between Hongkong, Canton and Macao.

As the pioneer river steamship company in South China, our flag had never been absent from the Canton River and Macao waters until the outbreak of war in 1941. We have every reason to be proud of our record. To the commercial and travelling public who have come to depend on our service it must have come as a shock after the war to find that while a few other steamers operate between the ports of Hongkong, Canton and Macao our Company had had to suspend its service.

Our contribution towards winning the war was no doubt utterly insignificant in comparison with the total war effort. But the Company had only three steamers and all of them were lost. In the circumstances it was not unreasonable to hope that Government would have expedited the settlement of our claims so as to enable the Company to carry on. This hope has not materialised.

Concerning our war losses the amount of \$285,350 reported in our accounts is not as serious as it might have been, nor is it as serious as our enforced inactivity.

I must tell you frankly that the immediate future of the Company is largely dependent on settlement of the claims against Government. At present we are only marking time, with the Secretarial staff consisting only of the Secretary and an office boy. The berthing fees for the use of our wharves enable us to carry on with a small monthly profit.

Having regard to the fact that throughout the war the Company's wharves at Hongkong, Canton & Macao were without proper attention I am glad to be in a position to report to you that of the six wharves owned by the Company only one in Macao requires some immediate major repairs. The others all need to be carefully nursed until such time as we should be able to complete their reconditioning. You will have noticed from the accounts that a fairly substantial sum has been written off as depreciation on the wharves. Their combined book values stand now at \$50,000.

At Canton, our Ling Nam Godown escaped the ravages of war, and is at present under lease.

Directors of the Company: Sir Robert Ho Tung, Messrs. Li Tse-fong, L. B. Wood, Li Fook-wo.

NOTICES

BUTTERFIELD & SWIRE

As from 1.1.47 we have taken over the Agency for the ships of the ANGLO-SAXON PETROLEUM CO., LTD.

Commencing from 6.1.47 all correspondence, bills etc. relating to all matters connected with the Anglo-Saxon Petroleum Company's vessels should be addressed to us at the following address:—

BUTTERFIELD & SWIRE,
1 Connaught Road, Central.
Tel. 30331-8.

HONG KONG GOVERNMENT LOANS

3½% Dollar Loan (1934 and 1940 Issues)

The coupon due on the 15th January will be paid on and after that date either at the Hong Kong and Shanghai Banking Corporation or at the Hong Kong Office of the Chartered Bank of India, Australia and China.

4% Conversion Loan 1933/53

The coupon due on the 1st February will be paid on and after that date at the Hong Kong and Shanghai Banking Corporation.

C. G. S. FOLLOWS,

Acting Financial Secretary.
Hongkong Government.

31st December, 1946.

Mr. John David Alexander has this day been admitted to Partnership in our Firm.

MACKINNON MACKENZIE & CO.

Hongkong, 1st January, 1947.

Mr. Thomas Wilson Bone has this day been authorised to sign our Firm's name per procuracy.

MACKINNON MACKENZIE & CO.

Hongkong, 1st January, 1947.

China Light & Power Co., Ltd.

Notice is hereby given that Mr. Frederick Charles Clemo, A.M.I. Mech. E., F. Inst. F., has been appointed the Manager of the China Light & Power Co., as from 1st January, 1947.

By Order of the Board of Directors.

F. W. WOOD,
Secretary & Chief Accountant.

London Exchange Rates

Most overseas transactions of British exporters are, at present, settled through sterling credits opened in Great Britain by the foreign importer. Payments and quotations, however, are sometimes made in foreign currencies. There may also be need to convert price-lists in foreign currencies into sterling.

The following table of Exchange Rates gives the rate at which an exporter is able to convert proceeds of sales abroad into British currency, i.e., the rates are based on

the selling quotations of foreign currencies. In the case of certain countries—a number in South America for example—it is impossible to give a single rate to cover all cases. There may be different rates, or special duties, for different classes of commodities. The rates in the table are as representative as possible but any qualifications in the foot-notes should be carefully observed. Where special surcharges on currency transactions are levied, these have been included so far as possible.

All rates are telegraphic transfer unless otherwise indicated. The information given in the third column on the Exchange System is mainly of technical interest. Where Bank of England official rates apply, and for Sterling Area currencies, rates for forward transactions can normally be arranged even where a definite forward quotation is not indicated in the table—so long as the currency it is desired to sell will arise from genuine commercial transactions.

LATEST QUOTATION					LATEST QUOTATION				
Country	Unit	Exchange System	Rate	Approximate Equiv. per unit in British Currency	Country	Unit	Exchange System	Rate	Approximate Equiv. per unit in British Currency
Argentina	Paper peso	Special Account	16.62 ¹	14.4440d.	Japan	Private trading	not yet permitted		
Austria	Schilling	Austrian a/c	40 ⁴	6.0000d.	Java (N.E.I.)	Florin	Dutch Account	10.70*	22.4300d.
Australia	£A	Sterling Area	125½†	191.2350d.	Mexico	Peso	American Account	19.65	12.2137d.
Belgium	Franc	B. of E. Official	176½	1.3579d.	N. W. Indies	Florin	B. of E. Official	7.62	31.4960d.
Belgian Congo	Franc	Belgian Account	177	1.3559d.	New Zealand	£N.Z.	Sterling Area	125	192.0000d.
Bolivia	Boliviano	Special Account	171.25 ²	1.4015d.	Nicaragua	Cordoba	American Account	22.35 ²	10.7383d.
Brazil	Cruzeiro	Special Account	75.45	3.1809d.	Norway	Krone	B. of E. Official	20.02	11.9880d.
Bulgaria	Private trading	not yet permitted			Palestine	£P=	Sterling Area	100½†	239.7004d.
Canada	Dollar	B. of E. Official	4.04	59.4059d.	Panama	1,000 Mills Dollar	B. of E. Official	4.04	59.4059d.
Chile	Peso	Special Account	101.35 ^{5,8}	2.3680d.	Paraguay	Guarani	Special Account	12.60	19.0476d.
China	National Dollar		125.70	1.9093d.	Peru	Sol	Special Account	26.20 ⁶	9.1603d.
Colombia	Peso	American Account	14,000 ^{4,7}	0.0171d.	Poland	Zloti	Polish a/c	403 ⁴	0.5955d.
Costa Rica	Colon	American Account	7.35 ^{2,9}	32.6531d.	Portugal	Escudos	B. of E. Official	100.20	2.3952d.
Cuba	Peso	American Account	22.65	10.5960d.	Rumania	Private trading	not yet permitted		
Czechoslovakia	Krown	B. of E. Official	4.04	59.4059d.	Salvador	Colon	American Account	10.17 ³	23.5988d.
Denmark	Krone	B. of E. Official	202	1.1881d.	Siam	Tical	Siam a/c	41	5.8537d.
Ecuador	Sucre	American Account	19.36	12.3967d.	Singapore	Dollar	Sterling Area	2s. 4.1/16d.	28.0625d.
Ecuador	Sucre	American Account	56.58 ^{2,9}	4.2418d.	South Africa	£S.A.	Sterling Area	100½†	238.8060d.
Egypt	Piastre	Sterling Area	97½	2.4584d.	Spain	Peseta	Special Account	44.00	5.4545d.
Finland	Finmark	B. of E. Official	555	0.43243d.	Sweden	Krona	B. of E. Official	14.50	16.5517d.
France	Franc	B. of E. Official	480.30	0.4997d.	Switzerland	Franc	B. of E. Official	17.36	13.8249d.
French Empire	Private trading	not yet permitted			Syria and Lebanon	Piastre	B. of E. Official	885	0.2712d.
Germany	Drachma		20,080 ⁵	0.0119d.	Turkey	Piastre	Turkish Account	1140	0.2105d.
Greece	Florin	B. of E. Official	10.70	22.4299d.	U.S.S.R.	Rouble	B. of E. Official	21.50	11.1628d.
Holland	(Guilder)	American Account	8.25	29.0909d.	U.S.A.	Dollar	Special Account	4.03½	59.4796d.
Honduras	Lempira	American Account	1s. 2.15/16d.	14.9375d.	Uruguay	Peso	American Account	7.209	33.2917d.
Hong Kong	Dollar	Sterling Area	46.96 ⁴	5.1107d.	Venezuela	Bolivar	American Account	13½ ³	17.4545d.
Hungary	Forint	Hung. a/c	26½	9.1428d.					
Iceland	Kronur	Sterling Area	1s. 5.15/16d.	17.9375d.					
India	Rupee	Sterling Area	130	1.8462d.					
Iran	Rial								
Iraq	Dinar=								
	1,000 Fils	Sterling Area	100½†	239.7004d.					
Italy	Lire		905	0.2651d.					

FORWARD QUOTATIONS (Discount 1 Month)

Canada	1 cent	Sweden	1½ ore
France	40 centimes	Switzerland	1½ centimes
Holland	1 cent	U.S.A.	1 cent

NOTES: ¹ Buenos Aires quotation.

⁵ Athens quotation.

² Including special charges.

⁶ 90 day sight quotation.

⁷ Shanghai quotation.

⁸ Sight quotation.

⁹ Batavia quotation.

[†] per £100.

⁴ Nominal quotation at present.

⁸ For essential imports.

China's Balance of International Payments

I.—FOR THE YEARS 1928—1934

	(Million of CN\$)				
Inpayments:	1928	1929	1930	1933	1934
(1) Merchandise Exports	1,487.0	1,523.5	1,342.3	611.8	535.2
(2) Correction of Export Values	74.4	114.3	134.2	61.2	80.3
(3) Export of Treasure: Gold and Silver	—	3.0	47.4	203.6	371.4
(4) Foreign Expenditure in China	—	—	—	—	180.0
(a) Diplomatic and Consular Offices	30.0	32.0	38.0	30.0	—
(b) Military Expenditure (Army and Naval Establishments)	139.7	124.0	100.0	100.0	—
(c) Foreign Shipping in China Ports (Harbor Dues, Repairs, Coal, Pilotage, Provisions)	—	—	—	25.0	—
(d) Educational, Missionary and Philanthropic Organs	25.0	30.0	40.0	50.0	—
(e) Tourists in China	30.0	30.0	40.0	10.0	—
(5) Remittances from Chinese Emigrants abroad	250.6	280.7	316.3	200.0	250.0
Total Inpayments	2,036.7	2,137.5	2,038.2	1,291.6	1,436.9
Outpayments:					
(6) Merchandise Imports	1,794.0	1,898.7	1,964.6	1,345.6	1,029.7
(7) Corrections of Import Values	—	—	—	134.6	154.5
(8) Gold Imports	168.7	158.7	100.5	—	—
(9) Payments for Insurance and Freight	15.0	15.0	20.0	—	—
(10) Chinese Expenditure abroad:					
(a) Diplomatic and Consular Offices	4.4	4.4	5.0	—	—
(b) Students and Travellers	6.0	6.0	8.0	6.0	6.0
(11) Remittances from Foreign Nationals in China	0.5	0.5	1.0	1.0	—
(12) Profit from Foreign Commercial Investment in China	179.0	198.5	198.0	24.0	20.0
(13) Cost of Foreign Loan Services	63.0	79.1	111.4	93.0	112.6
(14) Motion Picture Royalties	—	—	8.0	5.0	—
(15) Others	—	—	—	—	194.1
Total Outpayments	2,230.6	2,360.9	2,416.5	1,609.2	1,515.9
Inpayments on Capital Items:					
(16) Bonds issued by the National Government	4.0	—	—	—	80.0
(17) Foreign Business Investment in China	93.0	170.0	202.0	30.0	—
Total Inpayments on Capital Items	100.0	170.0	202.0	30.0	80.0
Unexplained Differences	93.9	53.4	156.3	287.6	—

II.—FOR THE YEARS 1935—1938

Inpayments:	1935	1936	1937	1938
(1) Export of Merchandise from China	\$ 575,809,000	\$ 705,741,000	\$ 838,256,000	\$ 762,641,000
(2) Adjustment of Export Values	50,000,000	50,000,000	67,000,000	60,000,000
(3) Export of Treasure:				
(a) Gold (net)	38,710,000	40,620,000	58,265,000	—
(b) Silver (net)	59,397,000	249,623,000	398,490,000	80,323,000
(c) Silver, Smuggled out	20,000,000	10,000,000	12,000,000	15,000,000
(d) Gold, Smuggled out	150,000,000	30,000,000	10,000,000	20,000,000
(4) Remittances from Emigrants abroad	280,000,000	320,000,000	459,000,000	600,000,000
(5) Foreign Religious Missions and Philanthropy	40,000,000	50,000,000	70,000,000	60,000,000
(6) Foreign Military and Naval Expenditure	70,000,000	50,000,000	100,000,000	180,000,000
(7) Foreign Diplomatic and Consular Expenditure	25,000,000	20,000,000	20,000,000	25,000,000
(8) Foreign Shipping in China Ports (Harbor Dues, Repairs, Coal, Pilotage, Provisions)	22,000,000	25,000,000	20,000,000	20,000,000
(9) Foreign Tourists in China	10,000,000	6,000,000	4,000,000	2,000,000
(10) Foreign Securities Yields (Interest, Profits, Redemptions, etc.)	8,700,000	20,000,000	25,000,000	15,000,000
Total Inpayments	\$1,349,616,000	\$1,576,984,000	\$2,073,011,000	\$1,839,970,000
Outpayments:				
(11) Imports of Merchandise into China	\$ 919,211,000	\$ 941,545,000	\$ 953,386,000	\$ 886,200,000
(12) Adjustment of Import Values	—	—	—	170,000,000
(13) Import of Gold (net)	—	—	—	14,083,000
(14) Smuggling of Goods into China	280,000,000	250,000,000	500,000,000	200,000,000
(15) Cost of Foreign Loan Services:				
(a) Secured on Customs Revenue	66,400,000	76,700,000	76,900,000	77,959,000
(b) Wheat and Cotton Loans	12,645,000	6,500,000	8,700,000	10,123,000
(c) Secured on Salt Revenue	13,260,000	13,358,000	15,525,000	18,205,000
(d) Railway Loans	8,100,000	10,950,000	13,500,000	9,800,000
(16) Chinese Legations, Students and Travellers	5,000,000	15,000,000	10,000,000	13,000,000
(17) Payments to Foreigners for Insurance, Freight and Charterage of Ships	20,000,000	30,000,000	20,000,000	20,000,000
(18) Silver Shipped abroad but still unsold	—	140,000,000	250,000,000	200,000,000
(19) War Expenditure abroad, less Credits Granted by Shippers	—	—	14,000,000	150,000,000
(20) Withdrawals and Flight of Capital	25,000,000	92,931,000	80,000,000	70,000,000
Total Outpayments	\$1,349,616,000	\$1,576,984,000	\$2,073,011,000	\$1,839,970,000

The first tabulation is based on compilations by Prof. Remer (for the years 1928—30) and Bank of China estimates (for 1933—34).

The second tabulation was compiled by Mr. E. Kann, Shanghai.

Shanghai Official T.T. Quotations
Averages for the years 1928—1938

	£	U.S.\$	H.K.\$	1933		1933		1933
1928	1/10.695	46.137	92.159	1934	1/4.100	33.785	88.076	
1929	1/8.724	41.508	88.869	1935	1/5.761	36.280	78.663	
1930	1/2.789	29.85	88.604	1936	1/2.377	29.709	93.556	
1931	1/0.004	22.243	92.29	1937	1/2.306	29.306	95.678	
1932	1/2.766	21.487	92.003	1938	-/10.391	21.168	68.877	

